

THE OFFICE OF REGULATORY STAFF
SURREBUTTAL TESTIMONY
OF
M. ANTHONY JAMES
NOVEMBER 23, 2009



DOCKET NO. 2009-226-E

**Application of Duke Energy Carolinas, LLC
for Authority to Adjust and Increase
Its Electric Rates and Charges**

SURREBUTTAL TESTIMONY OF
M. ANTHONY JAMES
FOR
THE OFFICE OF REGULATORY STAFF
DOCKET NO. 2009-226-E

IN RE: APPLICATION OF DUKE ENERGY CAROLINAS, LLC
FOR AUTHORITY TO ADJUST AND INCREASE
ITS ELECTRIC RATES AND CHARGES

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Anthony James. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as Associate Program Manager in the Electric Department of the Office of Regulatory Staff (“ORS”).

Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS DOCKET?

A. Yes, I did.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to respond to rebuttal testimony filed by Duke Energy Carolinas, LLC’s (“Company” or “Duke”) witness McManeus regarding the Company’s proposed weather normalization adjustment.

Q. HOW DO YOU RESPOND TO COMPANY WITNESS MCMANEUS’S REBUTTAL TESTIMONY?

1 **A.** Witness McManeus attempts to support the Company's proposal by
2 offering two examples in which the Public Service Commission of South Carolina
3 ("Commission") accepts Duke's use of normalized weather data. Specifically,
4 witness McManeus discusses how the Company incorporates weather normalized
5 data to generate its load forecast used in its integrated resource planning process
6 as well as its sales forecast used in determining fuel costs factors. However,
7 witness McManeus fails to mention that these two processes allow for annual
8 corrections or "true-ups." Regulated utilities typically do not file applications to
9 adjust base rates annually. In fact, it has been 18 years since Duke has filed a
10 general base rate case. Therefore, these two examples in which weather
11 normalization have been accepted by the Commission are not comparable or
12 pertinent to a base rate case.

13 **Q. DO YOU HAVE ADDITIONAL RESPONSES?**

14 **A.** Yes. I have two additional responses. First, witness McManeus accepts
15 ORS's findings that the proposed weather normalization adjustment is based on a
16 slight variance when comparing historical data to the test year. Witness
17 McManeus then applies a standard deviation comparison analysis of heating
18 degree days ("HDD") and cooling degree days ("CDD") for the most recent ten
19 year period (1999 through 2008). Witness McManeus states that the majority of
20 the variances are well under one standard deviation and therefore considered
21 normal variation and not statistically significant. However, the data presented by
22 witness McManeus shows the 2007 HDD to be a notable two standard deviations
23 from the mean and only 0.2 standard deviations from the mean in the following

1 year, 2008. A similar observation can be made by reviewing the CDD data
2 presented by witness McManeus. Witness McManeus's findings support ORS's
3 position that extreme fluctuations or "wide variances" in data prove the
4 unpredictability of weather and therefore should not be a basis for setting
5 prospective rates.

6 Secondly, in my direct testimony, I stated that the Commission has - on
7 several occasions - declined requests to include weather normalization in setting
8 prospective rates for utilities. *See Commission Orders: No. 78-404 (July 13,*
9 *1978); No. 79-230 (May 17, 1979); and, No. 85-841 (October 8, 1985).* In
10 Commission Order No. 80-375 dated June 30, 1980, the Commission declined the
11 request for a weather normalization adjustment stating that: "This Commission
12 has tended to regard proposed adjustments for weather normalization with
13 increasing disfavor..." Even though these Orders were referenced in my direct
14 testimony, witness McManeus's rebuttal testimony fails to fully acknowledge the
15 previous Commission decisions and offers no justification for why the
16 Commission should abandon its long-standing precedent to reject proposals to set
17 weather normalized prospective rates.

18 **Q. DOES ORS HAVE A RECOMMENDATION FOR THE COMMISSION**
19 **REGARDING THE COMPANY'S PROPOSED WEATHER**
20 **NORMALIZATION ADJUSTMENT?**

21 Yes. ORS recommends the Company be required to implement a formal
22 weather normalization adjustment process. This approach will allow for
23 appropriate corrections in Company sales due to weather impacts and should

1 remedy the Company's concerns while protecting rate-payers from the
2 uncertainty surrounding setting prospective rates based on weather. Barring such
3 a process, ORS believes the Commission should reject the Company's proposal
4 for a weather normalization adjustment.

5 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

6 **A.**Yes, it does.